

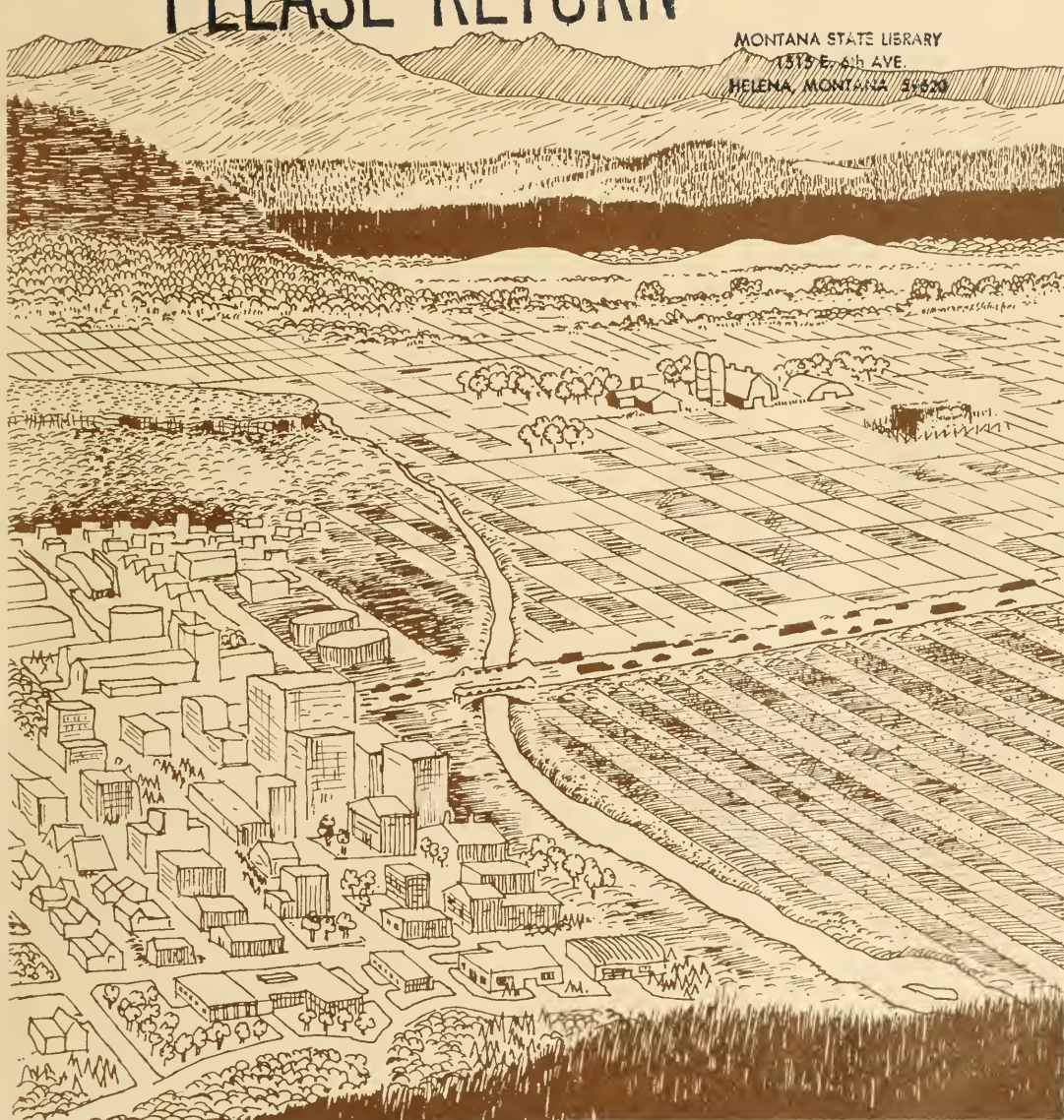
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TED SCHWINDEN
GOVERNOR

January 12, 1983

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TO: MEMBERS OF THE FORTY-EIGHTH LEGISLATURE:

We must be realistic about the limits of state involvement in economic development. The state is limited by legal constraints, budget limitations, and a strong historic philosophy separating the responsibilities of government and the private sector.

I emphasized these limits in my 1981 State of the State address, with the important addition that the state should attempt to provide the impetus for development. In the last two years, we have begun that process. The worst national economic situation in many years makes the effort riskier and more difficult - but all the more imperative. This last year, more than ever, we've "relearned" our vulnerability to national market conditions which are beyond our control. We're not alone. Even states in the "Sun Belt" are now experiencing rapidly deteriorating economies and high unemployment.

During the past year and a half, I have sought the input of many groups and individuals -- advice about how to move Montana into the future. Citizen advisory task forces have assessed such areas as small business, transportation, tourism, economic development and the management of state government and submitted their recommendations to me. Assessment must now give way to action. Relying heavily on these recommendations, I outlined over the last several months a four part "Build Montana" program including: (1) highway construction; (2) state block grants for local governments; (3) continued improvement of the management of state government; (4) aggressive economic development programs. None of what I propose is a "quick fix." Solutions will take years and not months.

This report summarizes the fifteen economic development programs that I am recommending to the legislature for adoption. The recommendations are designed to:

- 1) sustain businesses currently operating in Montana;
- 2) help Montana's existing businesses to expand;
- 3) help stimulate new businesses to start up and develop; and
- 4) attract new businesses to the state.

Each program will contribute to revitalizing, strengthening and diversifying our economy, but all of the proposals recognize that the state can play only a complementary role to the private sector. The revitalization of the Montana economy will depend on the energy and the initiative of individual Montanans.

Respectfully submitted,



TED SCHWINDEN
GOVERNOR

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AN ECONOMIC DEVELOPMENT PROGRAM TO BUILD MONTANA

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AN ECONOMIC DEVELOPMENT PROGRAM TO BUILD MONTANA*
SUMMARY

Montanans are concerned about their state's economic future. Recent public opinion polls show widespread support for economic development. The June 1982 Montana Poll showed that 91 percent of Montanans want Montana's economy to grow over the next five years. Another poll indicated that economic development is the number one priority of 76 percent of the Montanans questioned.

The polls reflect some grim realities ... over 9 percent of the state's labor force is unemployed and we have permanently lost over 5,000 primary jobs in the last three years. It is small comfort that our unemployment rate is still below the national average. The Small Business Administration reports that business closures in Montana are averaging 15 per month in 1982, compared with two to three per month in 1980. Wishful thinking or angry rhetoric will not improve our situation; nor will wringing our hands and simply waiting for the long-heralded national economic recovery. National economic recovery will not automatically replace the permanent jobs that have been lost to Montana's economy. It is time for Montana to begin a new economic era -- an era characterized by Montana initiative, Montana involvement and Montana investment.

The nation's worst recession in decades has underscored Montana's vulnerability to national economic conditions - conditions over which we have practically no control. High unemployment, erratic interest rates, failing businesses and low agricultural prices have forced Montanans to focus on what we can do to strengthen our own economy.

In 1981, the Administration consolidated three previous cabinet-level departments into a new Department of Commerce. This consolidation provided an opportunity for closer coordination of the business-related functions of state government. However, only 5 percent of the new department's budget is available for economic development programs, and almost two-thirds of that money comes from the federal government and will not be available in the future.

Using its limited resources, and with an eye toward helping small business, the state has made significant progress in establishing an effective, though limited, economic development program during the current biennium. Several hundred Montanans, from a variety of backgrounds, have served on a series of task forces that have developed recommendations for building Montana's economy. These groups have included: the Governor's Small Business Council, the Small Business Conference, the Montana Economic Development Project, the Tourism Advisory Council, the Temporary Committee on Development Finance, the Transportation Advisory Council, the University Committee on Economic Development, and others.

These task forces reviewed economic conditions in Montana and studied what has been done in other states to stimulate economic development. These discussions have not been without disagreement and controversy, but there has been substantial agreement on several issues. Some of the conclusions reached by these groups sound familiar to Montanans, some are reassuring and some are disturbing:

- The permanent loss of over 5,000 primary jobs in the mining, timber and transportation industries is a serious problem that will not be easily cured even with an upturn in the

*An earlier version of this paper was published in the Montana Business Quarterly Winter, 1982.

national economy.

- There are currently 110,000 primary jobs and it appears that Montana will need 23,000 to 29,000 more primary jobs by the year 2000 to reduce unemployment to 5 percent and support growth for the existing population at a 0.6 percent annual rate.
- Our economy is less diversified than most neighboring states.
- Personal income growth in Montana has lagged behind the nation and most of our neighbors.
- On a per capita basis, Montana has about held its own relative to the nation - while most neighboring states have improved their position, some by significant degrees.
- Employment growth in Montana has been lower than in most neighboring states.
- Montana agriculture is basically strong, though dependent on world markets and prices. We lack the facilities to process our own produce and increasing costs of production are a serious problem for Montana producers.
- Our timber industry is in a painful transition caused by the depressed national housing market, the shift of timber harvesting to the southeastern United States, Canadian competition and the impacts of federal timber policies.
- International competition, changes in demand and new technologies in hard rock mining and smelting resulted in the closure of the Anaconda Company smelters and reduced metal output. These declines have been only partially mitigated by the growth of small, independent mining operations in the state. Coal mining will continue to provide steady but moderate growth in jobs, far below the "boom" estimates projected a few years ago. Although there is strong potential for oil and gas development, the rate of development will depend on the worldwide price and supply.
- Small scale manufacturing is comparatively underdeveloped in Montana, although there are some real success stories. It is handicapped by high transportation costs, lack of development capital, the absence of a basic machine tool industry and inadequate research and development programs.
- Tourism has become an important source of primary jobs and small businesses, but studies have demonstrated that Montana does not have a national identity as a tourism or convention destination. The same studies conclude, however, that Montana does have strong potential for increased tourism.

- The distance to national markets is a major detriment to economic development in Montana. It is crucial for us to develop and maintain our highway, rail and air links. We must explore the potential of new communications technologies to tie us closer to national and international markets.
- Small businesses in Montana, as elsewhere in the nation, suffer from a lack of long-term development and venture capital. Montana currently does not have any of the programs that have been successfully developed in other states to help fill these small business needs.
- Montanans are committed to protecting environmental quality, but they recognize that stability and predictability of environmental regulations is necessary to encourage the long-term investments necessary to develop the state's resources.
- Until now, Montana has not made an effort to develop and implement a coordinated, articulated economic development policy. A partnership of business, labor and state government, with the help of the state's colleges and universities, is critical for coordinating the kind of development that results in new jobs and economic growth.
- Massachusetts, North Carolina and other states have been successful in developing and implementing a partnership of business, labor, government and higher education to implement coordinated economic development programs.

The Schwinden Administration has reviewed recommendations developed by these task forces and has formulated an economic development plan - the "Build Montana" program - which we are presenting to the 1983 Montana Legislature. All of these proposals recognize that the state can play only a complementary role to the private sector. The revitalization of the Montana economy will depend on the energy and initiative of Montanans.

The Economic Development Program of the "Build Montana" package includes the following fifteen proposals:

- I. Governor's Council on Economic Development
- II. Council on Science and Technology
- III. Montana Economic Development Board
- IV. Business Development Assistance Program
- V. University Business Management Development Program
- VI. Assistance to Local Development Organizations
- VII. Business Licensing Assistance
- VIII.A. Montana Product Promotion
- VIII.B. International Export Assistance
- IX. Business and Community Statistical Services
- X. Montana Economic Reporting and Forecasting System
- XI. Business Location Promotion
- XII. Tourism Promotion
- XIII. Community Development Technical Assistance and Infrastructure Study
- XIV. Economic and Community Development Division Support
- XV. State Funded Labor Training Program

Six of the programs are entirely new and nine involve additional funding of existing state programs or state funding of programs that are currently federally financed. The Executive Budget recommended \$3,613,523 to fund nine of the basic economic development programs. The "Build Montana" program recommends an additional \$5,603,679 to increase funding for the basic programs and to fund the six new programs.

The Executive Budget recommends an economic development staff of 24.67 positions; the "Build Montana" program would create an additional 19 positions within the executive branch and university system. Even with increased funding and staffing, the economic development budget would be less than one percent of the state general fund and staffing would be less than 0.003 of one percent of all state employees.

After carefully reviewing economic development programs in other states, we feel that this increase in funding and staff is fully justified. The Schwinden Administration does not intend to build a state bureaucracy to help small business. We believe that existing university, state, local and private expertise can accomplish this goal through a coordinated effort. But, adequate funding and staffing is necessary to make the partnership work.

SUMMARY OF PROPOSALS

Each proposal is briefly described below and fully explained in the next part of this report. The biennial cost for each proposal and staffing level is listed in the Budget Summary part of this report. Appropriate legislation to implement and fund the recommendations will be presented to the legislature. Throughout the report, the term "small business" is intended to include small farmers and ranchers as well as other small businesses.

The programs are all consistent with the following four economic development goals:

- To diversify the economy through increased investment in small businesses.
- To minimize the inconvenience of government licensing and business regulation.
- To continue to explore and develop, with the private sector, the opportunities for expanding business and job opportunities in Montana.
- To improve and coordinate state, local university and private assistance to small businesses.

Increasing Small Business Development

The first goal is to diversify the Montana economy through increasing investment in small businesses. Recent studies have shown that the small business sector is vital for creating and maintaining jobs in Montana. More than 70 percent of

existing employment in our state is in firms that have fewer than 50 employees. In addition, firms of this size generate 60 percent of the new jobs in the state, including primary jobs. We need to do more to help finance the establishment and expansion of small businesses.

The "Build Montana" proposals include four programs to increase investment in small businesses.

- Instate investment of 25 percent of the coal tax trust fund.
- Authorization of umbrella industrial revenue bonds.
- Increased utilization of federal small business loan guarantee programs.
- Authorization of Montana capital companies.

Each of these development finance tools cannot be looked at independently or in isolation ... each builds on the other. These programs involve no state subsidies. None of the strategies contemplate the creation of a state bank. The strategies do contemplate investment in sound, growing and profitable Montana enterprises.

After reviewing the successful development finance programs in other states, one fact stands out. Each one was developed and implemented with close cooperation among the existing financial communities, businessmen, local development corporations, and critical interest groups.

It is time to put the debate over I-95 behind us. Montanans must work to develop a program that will not only preserve the coal trust legacy, but enhance it by encouraging the development of Montana's economy.

As Montanans, each of us has taken a great deal of pride in the establishment of the coal severance trust fund. Each of us knows its importance. None of us takes lightly the responsibility of investing the trust fund prudently. None of us wants to squander that trust in poor investments or shaky proposals. By working together, we can enhance the return of the trust fund investments and simultaneously improve the current economic condition of the state. Let's assure that future generations will look back and say we had the foresight and courage to do it right.

Minimizing the Economic Impact of Governmental Regulation

The second economic goal is to minimize costly and unnecessary delays in government licensing and regulation of business. Government licensing and regulation is necessary to protect the public health, welfare and safety, but government can minimize the economic cost of its activities.

The new One Stop Business Licensing Center in the Montana Department of Commerce assists businesses that require state licenses or permits. The "Build Montana" program suggests expanding the Center's operation, and standardizing and simplifying the application process.

The administration is committed to simplifying the permitting process for the development of natural resources without weakening the environmental standards. One simple change is to standardize federal and state time frames for processing applications. We feel that both business and government can do a better job of minimizing conflicts in the application of these standards.

Expanding Business and Job Opportunities

A third goal is to continue to explore, with the private sector, the opportunities for expanding business and job opportunities in Montana. We need to know more about the Montana economy and we need to systematically explore, sector by sector, the opportunities for expanding business in Montana.

The Build Montana program recommends creation of a permanent, adequately funded Council on Economic Growth to coordinate a continuing evaluation of Montana's economic opportunities. The Council would include representatives of all major sectors of the Montana economy and undertake studies of specific economic issues. The Council would work closely with a committee of university economists to develop a state economic reporting and forecasting system.

Another recommendation is for state funding of a Committee on Science and Technology. A similar organization in North Carolina has had a dramatic impact on economic development by targeting and funding scientific research that is relevant to economic development opportunities. Such a council would also consider the desirability of creating industrial campuses for businesses that wish to draw on the scientific and technological resources of our colleges and universities. The Montana University System has been very actively involved in developing this concept.

Despite the fact that tourism and travel in Montana is a billion-dollar business that employs over 20,000 people, the state spends only half as much as South Dakota or Wyoming on tourism promotion and ranks forty-sixth in the nation in terms of tourism budgets. The "Build Montana" program recommends a significant increase in state and private funding of tourism promotion to establish Montana as a "world class" vacation and conference center. The process will take years but could have a tremendous impact.

The program provides for increasing the state's tourism marketing efforts through increased multi-media advertising in Canada and the United States. The state would expand a recently instituted direct marketing program for group travelers and new cooperative programs would be developed with the travel industry and neighboring states.

Technical Assistance

The fourth goal is to improve and coordinate state, local, university and private technical assistance to small businesses. The plan includes proposals for strengthening the business assistance program of the Department of Commerce, funding a Business Management Center at Montana State University, providing matching funds to community-based local development corporations, and creating a state-funded job training program. All of these efforts would be designed to help individual small businesses with their management, financing, marketing, training, inventory, computer and other problems.

One of the best ways to stabilize and increase Montana business is to help expand statewide, national, and international markets. To do this, we need a program to promote Montana products and provide export and marketing assistance. Innovative marketing of Montana products is one of the best ways the state can help small businesses.

A state job training and retraining fund would help Montanans learn new skills. The decline in federal job training funds and the restriction imposed by federal government requirements dictate that we begin to develop our own program for investing in a trained work force.

CONCLUSION

This month, over 36,000 Montanans are out of work. The implementation of the economic development proposals of "Build Montana" will not turn the state's economy around overnight. But, they are modest, reasoned, responsible first steps.

Nationally recognized economist Lester Thurow, raised in Montana, has suggested that state governments, at best, are capable of affecting only 10 percent of their overall economic activity. With this realistic estimate in mind, let us begin our task. We can chart a new course in Montana's economic history. We can do it prudently and effectively.

PROGRAM DESCRIPTIONS

- I. Governor's Council on Economic Development
- II. Council on Science and Technology
- III. Montana Economic Development Board
- IV. Business Development Assistance Program
- V. University Business Management Development Program
- VI. Assistance to Local Development Organizations
- VII. Business Licensing Assistance
- VIII.A Montana Product Promotion
- VIII.B International Export Assistance
- IX. Business and Community Statistical Services
- X. Montana Economic Reporting and Forecasting System
- XI. Business Location Promotion
- XII. Tourism Promotion
- XIII. Community Development Technical Assistance and Infrastructure Study
- XIV. Economic and Community Development Division Support
- XV. State Funded Labor Training Program

GOVERNOR'S COUNCIL ON ECONOMIC DEVELOPMENT

Economic Development Issue: Meaningful economic development will require a long-term, consistent and coordinated commitment by government, business, agriculture, labor, the university system, community groups, citizens and conservation organizations to achieve common economic goals. During the past two years a series of adhoc committees were created with representatives from these various sectors to examine economic issues. From the administration's efforts to bring these groups together was born the process of identifying common goals and programs to achieve these goals. The development and implementation of these efforts have constituted a significant first step toward a cooperative program. But it is only a first step. No permanent group exists to guide the creation of economic development policies and programs.

Current Policy and Programs: An adhoc collection of advisory committees and inter-agency coordinating committees have been created during the last two years to provide private sector advice and to coordinate state economic development programs. There has been informal coordination of these groups by the Department of Commerce. Experience in working with the adhoc committees has demonstrated a real need for coordination and common membership. A partial list of the existing independent adhoc committees that have provided advice on economic development policy includes:

- Temporary Committee on Development Finance
- Montana Economic Development Project Steering Committee
- Governor's Adhoc Committee on Agriculture
- Governor's Tourism Advisory Council
- Governor's Employment & Training Advisory Council
- Wilderness Advisory Committee
- State Data Advisory Council
- NRAG Study of Instate Investment
- State Occupational Information Coordinating Committee
- Montana Career Information System Advisory Committee
- Governor's Transportation Advisory Council
- Rural Area Development Councils
- Governor's Small Business Advisory Council and Conference
- Private Industry Council
- Community Development Advisory Committee
- Forest Resource Advisory Council
- Montana Economic Development Association
- University Committee on Economic Development
- Preliminary Committee on Business Management and Training

Build Montana Recommendation: The current adhoc collection of advisory committees should be replaced with a permanent Governor's Council on Economic Development with the main subcommittees listed below. The 20-member council should be created to provide for continuity and stability across administrations. The Governor's Council would contain representatives of all major industries, small businessmen, agricultural and financial communities, labor, conservationists and appropriate state agency directors. The Council would meet at least quarterly and it would: (1) sponsor appropriate research on economic development issues; (2) propose and evaluate economic development programs; (3) coordinate the work of standing and special subcommittees; and (4) advise the Governor on the preparation of a biennial economic conditions development report. The statute would not specify the standing subcommittees, but we recommend that the initial standing permanent subcommittees of the Council include the following:

- Ad hoc Committee on Agriculture
- Manufacturers Advisory Committee
- Committee on Economists
- Development Finance Committee
- Tourism Advisory Committee
- Council on Science and Technology
- Labor Force Advisory Committee
- Montana Economic Development Association
- Forest Resource Committee

The standing permanent subcommittees would have their own separate membership and their chairperson would serve on the Governor's Council as a method for providing communication and coordination between subcommittees. Additional subcommittees would be created periodically to deal with other economic development issues.

During its first biennium 1983-84, the Committee's major focus would be on (1) establishing the Committee of Economists and the economic forecasting system described in recommendation X; (2) establishing the Science and Technology Committee contemplated in recommendation II; (3) supervising an Industrial Water Marketing Study; (4) supervising a study of business taxation; (5) supervising a study of the timber industry in Montana, and (6) monitoring the implementation of economic development programs created by the 1983 Legislature. The council would also sponsor public conferences on various economic development issues including the second annual small business conference.

The council will cooperate with the study of the future of agriculture in the West which is being sponsored by the Western Governor's Conference. The purpose of the study being conducted under a Task Force of Western Governors' is to identify the most crucial agricultural issues facing the West, and to develop alternative strategies for western states to play a larger role in shaping the future of American agricultural policies. The initial focus of the project is to identify and assess the major trends and conditions of western agriculture in such areas as land utilization, foreign and domestic markets, federal-state interaction and transportation. At the completion of the initial phase, the Governor will assign priorities to the issues and problems to be resolved and a strategy to address each.

A strong, effective, well-financed Governor's Council on Economic Development can articulate coherent economic development policies and programs and provide continuity and coordination between administrations. The council can provide an opportunity for participation of all sectors of Montana's economy in the development, implementation and evaluation of Montana's economic development programs.

The council would be attached to the Department of Commerce for administrative purposes and the department would provide staff for the council. The council would have a special appropriation to pay for contracted research. Research contracts would be let by bid to universities or private consultants.

COUNCIL ON SCIENCE AND TECHNOLOGY

Economic and Development Issue: Inflation, low productivity, trade deficits and job loss are all linked to inadequate technological growth and innovation. Without technological progress, industry creates few jobs, factories and equipment become obsolete, productivity stagnates, and inflation becomes more difficult to control.

Firms that have invested heavily in developing technology and carried it forward into commercial products have been shown to have about twice the productivity rate, three times the growth rate, nine times the employment growth, and one-sixth the price increases as firms with relatively low investment in these activities. Further, two of the four highest location requirements for "footlose" high technology firms could be generated by an active, focused scientific partnership--labor skills and availability and the proximity of (relevant) academic institutions. The State government can play a major role in initiating and supporting technological innovation by bringing the government, academia and industry into a partnership. The state of North Carolina and its Research Triangle serve as a model in this regard. This experience underscores how important technological progress (initiated and nurtured by a well directed R & D enterprise) can be to all American industry and to the achievement of some of the nation's most important social and economic goals.

Current Policy and Programs: The State of Montana has no program or agency that broadly addresses research and development priorities as they apply to economic development. State funding of agriculture and forest products research is administered by the Experiment Stations in the University System but no comprehensive or broad-based program of research and technology transfer that involves or addresses engineering areas, small manufacturing businesses or tourism exists in the State. Moreover, there are no policies or procedures that establish research priorities with regard to new technologies that could be the basis for a small business in Montana.

Build Montana Recommendation: A nine-member Science and Technology Council should be created. The Council would direct the establishment of a program of research and development which enhances and supports the economic development of the state. The committee should be composed of university and private sector scientists, business and agricultural representatives. The nine-member council would be attached to the Department of Commerce for administrative purposes, but would hire its own staff. The staff would consist of a director, scientific assistant and secretary. The director would be a highly qualified research scientist or engineer with experience in research management.

The Council would have the following responsibilities:

- Develop scientific, technical and engineering research priorities that complement and support economic development in the state.
- Develop a short term (1-5 year) and a long term (5-20 year) list of research priorities for presentation to the 1985 Legislature.
- Develop strategies and implement plans to obtain public and private funding for continuous funding of multi-year projects and programs.

- Develop data and facts about relationship between science and technology and economic development in selected areas in order to instruct the R & D effort of the University System and the scientific community at large.
- Develop mechanisms for the transfer of technology originating from Committee-funded projects.
- Develop a program of economic development extension that seeks to disseminate useful scientific, technological and engineering information to Montana businesses.
- Develop a patent management program on behalf of the State that is designed to control and protect valuable discoveries arising from R & D projects supported by Committee funds.
- Develop contracting and monitoring mechanisms that include proposal/project review and evaluation and fiscal management of funds.
- Recommend programs for the establishment of research/industrial park complexes which will combine the resources of government, education and industry centered in major university areas or other parts of the State as appropriate. Specifically, programs to establish agricultural and forest product processing parks founded on new technologies originating from research shall be investigated.
- Recommend that each unit of the university system create an Economic Development, Research and Extension Committee to coordinate and facilitate faculty involvement in economic development research and service.

The responsibilities for promoting technological innovation and its precursor activity, research, is shifting from the Federal government to state governments. Thus, state government is obliged to redefine its role in relation to research institutions, industry and the general public. North Carolina, New York, Massachusetts, and California have acted on the idea of a partnership between government, academia and business to promote technological innovation that enhances the economy. Many new businesses and investments in these can be directly attributed to organized efforts largely through Councils/Committees for Science and Technology that stimulate economic growth. In Montana, many if not all electronics companies in the Bozeman area owe their presence directly or indirectly to the Electronics Research Laboratory (formerly operated by the University) or the University itself. Further, other Montana attributes--cost of living, life-style, etc.--could be "spotlighted" to develop technology based firms if an appropriate base of knowledge and skills were available.

III

MONTANA ECONOMIC DEVELOPMENT BOARD

Economic Development Issue: Recent studies have shown that the small business sector is vital for creating and maintaining jobs in Montana. More than 70 percent of existing employment in our state is in firms that have fewer than 50 employees. In addition, firms of this size generate 60 percent of the new jobs in the state, including primary jobs. We need to do more to help finance the establishment and expansion of small businesses.

The need for capital -- in the right amount and on the right terms -- is common to all businesses. Large, established corporations usually have no trouble tapping traditional capital sources, but evidence indicates that appropriate amounts and kinds of capital are often unavailable for small business. This is a major impediment to creation and expansion of small business.

Traditional state and national capital markets often do not fulfill small business needs for long-term debt and equity. Time and again, these firms are unable to obtain financing even though their rates of return (after and adjustment for risk) exceed the cost of capital. Often no long-term financing is available at all. Sometimes they are charged a higher price for funds than would prevail in a fully competitive, efficient capital market. Specifics vary from state to state, but the basic capital availability problem for developing business enterprises is common to all areas of the nation.

In 1980, Western Analysis, a private consulting firm, completed a study of development finance in Montana. This report concluded that imperfections in the state's capital market did, in fact, exist, including gaps in the availability of middle to long-term business loans, an underdeveloped and inconsistent secondary market for government guaranteed loans, and a lack of organized venture capital. These findings have been confirmed in frequent conversations with the Montana business and financial community.

Current Policy and Programs: Except for local issuance of industrial revenue bonds, Montana has not utilized any of the development finance tools used in other states. The debate over the adoption of Initiative 95 generated significant interest in reviewing the development finance programs in other states.

Build Montana Recommendation: The Temporary Committee on Development Finance has recommended four development finance tools. The Administration is prepared to support three of the four and will refer the remaining tool to the Legislature for its consideration. The three development finance tools endorsed by the Administration are:

- The implementation of Initiative 95 to invest in the Montana economy 25 percent of the new revenue deposited in the Coal Tax Trust Fund after June 30, 1983, and
- Authorization of umbrella industrial revenue bonds.
- Creation of Montana Capital Companies

The other development finance program to authorize the instate investment of other state trust funds which was recommended by the Temporary Committee on Development Finance will be referred to the legislature without specific endorsement of the administration.

These programs do not involve state subsidies and all will operate through existing banks, savings and loans, credit unions and other financial institutions. The decision to make long-term loans will be made by those financial institutions, not state politicians or bureaucrats. The state programs will simply improve the availability of long-term capital at competitive rates. The decisions to expand existing business or develop new opportunities will depend on the private sector's initiative.

The fourth proposal by the committee which will simply be referred to the legislature for its consideration would authorize a 50 percent tax credit for investors in Montana capital companies. The total tax credit would be limited to \$3 million dollars in the next two bienniums. The capital companies which would require a minimum capitalization of \$200,000 would be designed to encourage investment in small Montana business enterprises.

The temporary committee recommended the creation of a new, seven-member Montana Economic Development Board to be responsible for investment of the I-95 funds as well as administering the umbrella revenue bond program and the capital company tax credit if authorized. The Montana Economic Development Board and the Board of Investments would hold joint meetings at least twice a year as a unified investment board to coordinate investment strategies, policies and programs.

Implementation of Initiative 95: Recognizing the value of in-state investment, Montanans voted in November to require that 25 percent of all revenue deposited after June 30, 1983 in the permanent coal tax trust fund be invested in the Montana economy. This initiative provides for special emphasis on investments in new or expanding locally-owned enterprises. In the first year, approximately \$13 million of the \$52 million in new trust fund deposits will be invested in Montana. One estimate shows the annual amount invested as doubling in 1989 to \$30 million and a total of \$134 million of the total coal tax trust of \$713 million invested in-state by the end of 1989.

The initiative provides that the "objectives for investment of the permanent coal tax trust fund are to diversify, strengthen and stabilize the Montana economy and to increase Montana employment and business opportunities while maintaining and improving a clean and healthful environment." The initiative prohibits the state from making direct loans. All investments must be made through financial institutions such as bank, savings and loans, credit unions, small business investments or development corporations. The draft legislation further limits state participation in any loan to 80 percent of the loan and limits the size of loans to an amount equal to 10 percent of the fund for the prior year.

The draft legislation will not exclude certain types of investment but does propose that "preferences" be given to business investments which:

1. Are for locally owned enterprises which are either expanding or establishing new operations;

2. Provide jobs that will be substantially filled by current Montana residents as opposed to providing jobs that will be filled by non-residents coming into the state to fill such jobs;
3. Maintain and improve a clean and healthful environment with emphasis on conservation, renewable resources, and alternative energy production; and
4. Benefit small and medium sized business as defined in rules adopted by the board.

The term "preferences" was recommended by the Temporary Committee on Development Finance as a compromise that would not exclude any type of business, but would establish "preferences" for use of the state funds.

Investments would be limited to those currently authorized by law, except the Board could authorize new types of investments by rule. At least 11 other states are currently studying ways to invest their public pension trust funds in economic development. Twenty-nine states have already implemented various in-state investment strategies. In some programs, state trust funds purchase packages of in-state commercial, industrial, and residential mortgages originated by financial institutions. Such purchases are currently made by the Montana Board of Investments for state retirement funds, but the program could be expanded.

The state of New Mexico and Alaska are provided long-term certificate of deposit (CDs) to in-state banks with terms as long as eight years. These long-term CDs can be provided on the condition that the bank matches the long-term CDs with a commercial loan of similar length and terms. The long-term nature of these CDs is critical: numerous studies have shown that short-term public fund deposits may simply be sold in national markets and thus export capital out of the state rather than retaining it for in-state investment.

Long-term CDs are compatible with the long-term nature of public trust funds and pension funds. They can expand the availability of long-term capital to Montana financial institutions in ways that make the long-term money available for business loans but do not tie the risks of the loan to the trust fund. The terms and rates (with an appropriate operating spread for the bank) are tied, but not the risk. The bank retains the full risk of the loan to the private business. The trust fund is entitled to its return on the CD irrespective of the performance of the borrower.

Last year, the Wyoming Retirement System earned a high rate of return on state trust funds while developing a very effective in-state investment program. The Wyoming Retirement System purchases from banks the guaranteed portion of SBA loans to small business at 1 percent over the U.S. Treasury interest rate. The program generated increased SBA loans in Wyoming and has resulted in \$16 million in financing through local banks, to 96 small businesses. The Wyoming Retirement System is now developing a new program to pool small SBA guaranteed loans. This program, called G.R.O.W. will provide \$4 million in financing at very competitive rates. Similar programs to purchase SBA guaranteed loans exist in Kansas and New Mexico and are being implemented in California.

Umbrella Industrial Revenue Bonds: The Montana Economic Job Development Board would also have the authority to raise private capital for small Montana businesses. This would be accomplished through the sale of umbrella industrial revenue bonds that would pool individual loans (limited at \$800,000) into umbrella bond issues. The program does not require any pledge of the state's credit.

Industrial Development Authorities currently exist in 36 states. They have a variety of powers, but most have the power to stimulate industrial and commercial employment through issuance of industrial revenue bonds. Eighteen authorities have the power to insure or guarantee industrial revenue bonds (IRB). Although many development authorities operate direct loan programs, no such direct program is being proposed in Montana. In recent years, there has been a new emphasis among the authorities on packaging a number of small loans to businesses into "pooled" or "composite" or "umbrella industrial revenue bonds" (URB).

An umbrella revenue bond is a single bond, issued much like any other industrial development bond. The difference between a URB and IRB is that while an IRB will be issued with the total proceeds going to a single firm, portions of the proceeds of a single-issue URB are lent to a variety of firms that stand behind the bond. In effect, the URB issue is a diversified secondary loan portfolio including a number of small businesses. The 1931 federal tax bill now specifically authorizes URBs until September 30, 1986. It is expected that the authorization will be extended.

The pooling of small loans into a single URB presents specific benefits to both borrowers and investors:

- Smaller firms are given access to capital from the national/tax-exempt bond market. The \$1 million-plus size of a typical IRB issue is both too large for a small firm to carry and larger than many small firms need. URBs permit spreading the \$1 million among a number of small firms.
- The actual cost to the firm of raising capital is reduced. The cost of issuing bonds is fairly constant, regardless of the size of the bond. Consequently, the disproportionately high cost of issuing bonds of less than \$1 million often prohibits their issuance. With a URB, instead of issuing many small bonds with high proportionate issuance costs, a single larger bond is issued, decreasing issuance costs to a level that is bearable by the smaller firm.
- URBs decrease the cost to the investor of collecting information on the individual firms. By pooling many small loans into a single bond issue that is large enough to qualify for a rating, the investor receives a standard evaluation of the quality of the bond. Without a URB, the investor would have to research the financial position of each individual firm with high cost in terms of both time and money -- and would often opt to not even consider making the investment.

URBs are a very effective means for making long-term funds available to small business. Many studies have documented both the important role small businesses play in the national and state economies and the difficulties they have acquiring capital. Thus, by directing long-term debt capital to small businesses, URBs fill a financial need of small businesses and help insure their viability.

Eleven of the development finance agency authorities in other states have authorized small business umbrella bond programs and most of all of the others are developing URB programs since the clarification of the federal law.

To give a current example, the Massachusetts Industrial Finance Agency (MIFA) is currently preparing a \$25 million bond issue for land, plant and equipment loans to small commercial and industrial borrowers for up to 10 years at fixed rates of about 2 percent below the prime rate. This is possible because of the combination of federal tax exemptions and an AA investment grade rating for the bonds. The loans are originated and serviced by Massachusetts banking institutions (as would be the case in Montana). Professional bond counsel and underwriters are also directly involved in this approach, and their advice has been sought in planning the Montana Umbrella bond program.

One concern about this approach is whether the creation of a Montana Development Authority might overwhelm or replace city and county IRB bonds. Based on proven experience in such places as Massachusetts, the answer is clearly "no." The Massachusetts Industrial Finance Agency has grown from \$80 million to \$2 billion in the last four years, and over 90 percent of the loans have originated through local agencies. The local agencies came to MIFA seeking the professional guidance and better bond and investment counsel to structure a better deal at a lower rate for the benefit of the borrowers and the community. The local agency and the local banker work with the state development authority to put together a better deal for the local borrower and the local community.

Montana Development Credit Corporation: The Administration will continue to support the recapitalization and reorganization of the Montana Development Credit Corporation as a way to increase investment in small businesses. The reorganization will be undertaken by Montana banks and private corporations. Since 1976, the Wyoming Development Corporation in cooperation with local banks, has provided close to \$26 million in direct loans to 92 Wyoming businesses, thus creating or pre-serving 1,400 jobs. The Montana Development Corporation could also become an effective private development tool if it has proper management and an increase in capital.

Authorization of Instate Investment of Other Trust Funds: The Temporary Committee on Development Finance also recommended a separate bill be prepared that would permit the Board of Investments to invest up to 10 percent of any state fund in Montana in investments that are not specifically listed in the current list of permissible investments. The subcommittee felt that such an amendment would give the board sufficient leeway to make additional instate investments with other trust funds. The administration has not yet endorsed this proposal.

Creation of Montana Capital Companies: The Temporary Committee on Development Finance recommended a fourth proposal that has been modified by the Administration because of its impact on the state budget for the biennium.

The proposal would authorize the creation of private Montana Capital Companies. If the Capital Companies raised a minimum capital base of \$200,000, investors would be entitled to a 25 percent tax credit on personal or corporate income

taxes. (The committee originally recommended 50%.) The total tax credits would be limited to \$1 million for each of the next two bienniums (The committee originally recommended \$3 million). Tax credits would be designed to encourage private investors to invest in the creation of these Montana "Venture" capital companies. The committee also recommended the creation of a state small business venture fund that could purchase the long-term bonds of the Montana Capital Companies. The fund could be created by a bond issue supported by income from the coal tax trust.

STATE BUSINESS DEVELOPMENT ASSISTANCE PROGRAM

Economic Development Issue: Studies have shown that the small business sector of Montana is responsible for over 70% of existing employment and generates 60% of the new jobs in the state. This is consistent with similar studies in other states. The implication of this to overall economic development efforts is that helping Montana's small business sector to remain strong and expand is an effective and appropriate strategy for the Department of Commerce.

There are two specific problems in providing assistance or training to small businesses: cost (many cannot afford the time or money); their unawareness of the various kinds of assistance available and inability to pinpoint how it might help their operation.

Current Policy and Programs: The Department of Commerce currently has a very limited federally-financed program to target assistance to Montana small businesses, with emphasis on manufacturing firms. The program has approximately \$100,000 available for matching mini-grants up to \$5,000 (requires 20% match) to help small manufacturers at critical times with professional technical assistance. Examples include: professional assistance in putting together a federal contract bid; UL testing to allow national distribution of a product; financial packaging to obtain financing for a canning plant. In all cases, the assistance provided comes from private experts (on contract) in the field, not from state staff directly. State staff serve to screen applicants and refer them to alternative sources of appropriate assistance. The program is closely coordinated with local development organizations.

In addition to specifically managing the grant program, staff, upon request, also provide direct assistance to a limited number of firms -- assistance in analyzing existing operations and helping to identify problems in business practices. Finally, the staff's general knowledge of business activities across the state allows them to serve as a clearinghouse for business information. For example, one staff was able to match up a plastic injection manufacturer in one part of the state to a manufacturer needing plastic handles, resulting in a cost savings and more jobs for Montana.

Build Montana Recommendation: The state program of business development assistance should consist of four related programs: a state clearinghouse function; the mini-grant program; coordination with the State Labor Training program; and participation in the Reagan Administration's Small Business Economic Revitalization Programs. All of the "State Business Development Assistance Programs" are designed to complement, not duplicate the "University System Business Development Assistance Program." All of the programs would be available to farmers and ranchers as well as other businessmen.

Clearinghouse Program: The existing federally-funded program of business management assistance should be funded by the state and expanded. The philosophy of the program would be to provide a clearinghouse function on management assistance and training and not to develop a state staff to actually provide management advice -- that function is properly left to the private and university sectors.

Following meetings with the U. S. Small Business Administration, the Business Schools of the University System, local development organizations, local chambers of commerce, the state Chamber of Commerce and private consultants in the area of

business consulting, the following recommendations for business management assistant programs were developed: The recommendations are consistent with, and necessary to complement existing public and private programs.

The Department of Commerce should have adequate funds to:

- Continue the technical assistance mini-grant program, targeted toward manufacturing firms, to help those businesses for whom cost of management assistance is a major problem.
- Continue the regional marketing assistance projects (begun under the Private Industry Council) to get marketing assistance to small businesses that otherwise could not afford it.
- Expand the number of staff available to serve an analytic role in helping business pinpoint its problem areas and identify the type of assistance needed.
- Serve as a clearinghouse of information on all training/workshop activities being offered in the state, including a roster of trainers so that areas wanting programs can be assisted in finding appropriate instructors. Also help identify small business training needs and arrange training programs to meet those needs.
- Develop a statewide inventory of business consulting firms and capabilities.
- Develop a statewide inventory of manufacturing capabilities.
- Promote understanding and awareness of training and technical assistance availability.
- Maintain up-to-date research and publicize available information on feasibility studies, case studies, and other relevant, specific information for Montana businesses.
- Partially fund the University Management Center to facilitate utilization of university business faculty for management assistance and training.

The above activities complement and do not compete with public or private activities already existing in the area of small business training and technical assistance. These activities will provide a central clearinghouse, coordinating and publicizing functions to assure that the best use is made of the existing services.

Mini-Grant Program: The existing federally-funded program of mini-grants should be funded by the state and expanded. The pass-through mini-grants would require a 20% matching funds basis to individual businessmen. The program would emphasize manufacturing firms and assist only at critical points in the evaluation of a business where extra financial and technical assistance will make a difference.

Examples of mini-grant projects include:

- Product Development -- Evaluation of prototypes and appraisal for cost reduction and methods for improving products; identification of sources of assistance for specialized manufacturers; liaison with other companies and agencies.
- Purchasing -- Identification of vendors; the review of material specifications; the analysis of purchasing practices, etc.
- Inventory Control -- The design of basic inventory control systems and/or the assessment of existing systems.
- Marketing -- Guidance on the selection aids and the design of sales promotion programs; assistance in selecting distribution channels and in formulating selling plans; assistance in the design of marketing control systems, the identification of potential customers for specific products.
- Financial Planning -- Predicting the needs of obtaining capital and evaluating alternate methods; searching for sources of capital; evaluating general financial management control; assisting, planning and budgeting operations; evaluating and developing basic management systems and procedures.
- Organization Analysis -- Review of organization structures; design and development of new organization relationships, etc.
- Production -- Analysis of preventive maintenance systems; analysis of equipment requirements; determination of improved methods; the preparation of plant layouts, including the analysis of operations and processes required, and the physical arrangements of facilities, utilities, and work area; the analysis of material handling problems and identification of needed equipment systems; the design of schedule and control systems; the establishment of quality control systems, including the analysis and inspection methods, the design of expense systems and the development of control records.
- Industrial Relations -- The review of personnel administration systems including practices and methods involving recruitment, selection and training; the evaluation of manpower utilization program and assistance in designing effective utilization practices; counsel in the area of employee relations, especially in regard to communication.
- New Venture Analysis -- Services in evaluating competitive conditions, and probable demand; the identification of facilities, equipment, manpower and estimated capital needs for a specific venture.
- Tourism -- Research activities involving literature searches and data collection and analysis for profit-making firms and for new venture development; assistance in identification of project priorities; identification of potential employment opportunities, geographic tourism areas; publication of management and technical bulletins for distribution to firms in tourism areas within the state; sponsorship of periodic conferences for tourist businesses to assist in resolving common problems.

Coordination with the State Labor Training Program: The state-funded labor training program will be administered by the Department of Labor, but the Department of Commerce will be a primary contact for businessmen interested in participating in the labor training programs.

Participation in Federal "Small Business Economic Revitalization Program" (SBR): The SBR program is sponsored by the Department of Housing and Urban Development, the Small Business Administration and the Department of Commerce. The Reagan-sponsored program is 50 percent federally-funded and 50 percent state-funded - at a cost of \$40,000 to the state. The program is designed to: (1) develop business-state partnership to focus on financing small businesses; (2) train a small team of four to ten state and local development personnel in packaging federal (SBA, UDAG, FmHA) financing programs for individual small businessmen; (3) obtain financial sector commitments to provide fixed asset loans for small businesses; (4) identify healthy businesses that would benefit from participation in federal loan-guarantee programs. The program is currently being implemented in 21 states. An appropriation of \$40,000 would permit participation by Montana.

UNIVERSITY BUSINESS MANAGEMENT DEVELOPMENT PROGRAM

Economic Development Issue: The expertise on business management issues of university facilities is not always readily available to the private sector. Businessmen often do not know whether assistance is available. Faculty members frequently are not prepared to provide assistance and there is no convenient mechanism for conducting the technical assistance and training.

Current Policy and Programs: The schools of business at both the University of Montana and Montana State University provide management training programs for private sector businessmen and their faculties provide technical assistance, but there is no formal program to coordinate the utilization of business and other faculty members.

Build Montana Recommendation: The Business Management Development Center at Montana State University should be partially state-funded and given the responsibility of coordinating University management assistance and training programs for the business and agricultural communities. The university programs would complement, not duplicate the State Business Development Assistance programs. The center would operate under an advisory committee of Montana businessmen and women. It would mobilize and coordinate the business faculty resources from all the University system campuses and share those talents with the business community through consulting and training programs. The center would be substantially self-supporting because services would be provided on a fee basis, even though the state would provide start-up costs for the center. Some seminars would be state-funded or funded in cooperation with private sector sponsors. The center would include a computer laboratory to provide technical assistance on how to apply computer technology to business management. The center would use existing faculty resources to provide expert training and technical assistance in various problem areas such as accounting, finance marketing and management. The center would also coordinate a program of applied management research designed to deal with management problems of Montana industries. The center would be based on successful models developed in other states. The center would emphasize the use of faculty resources from other disciplines such as Engineering, Film and TV, Psychology, etc. The Agnet System would be used to provide statewide services. A major component would be the provision of education courses and seminars. They would be modeled after the successful computer clinics already conducted by Montana State University and the small business seminars sponsored by the University of Montana.

ASSISTANCE TO LOCAL DEVELOPMENT ORGANIZATIONS

Economic Development Issue: There is a limit to what the state can accomplish at the state level. It is the local community that most immediately affects small business and economic growth through such things as local taxation, zoning and ordinance regulations, and general attitudes toward the business community. Some direct business assistance (such as financial packaging of government loan programs or matching up one-on-one assistance in marketing) is best coordinated through a local organization familiar with local business people and close enough to call on when problems arise. Fostering strong local development organizations with professional capabilities is critical to strengthening Montana's economy and growth potential by fostering a strong sense of private/public partnership at the local level.

Current Policy and Programs: Approximately 10 community-based economic development organizations now exist in Montana. They vary greatly in financial resources, staffing, composition of their boards and development programs. The federally-funded Private Industry Council provided significant grants to four organizations in FY 1982 and five in FY 1983. This federal money will not be available in the future. The Department of Commerce has provided some technical assistance and has tried to channel requests for technical assistance and business location information through local development organizations. We are trying to establish the precedent that local development organizations are the front-line of economic development. The recently organized Montana Economic Development Association provides a vehicle for coordinating the activities of the local corporations and also provides a vehicle for coordinating state assistance to the local development organizations.

The Department currently has one person assigned part-time to work with local development organizations. This staff person is designing a training program for officials and representatives of local communities modeled after similar "Star City" or "Certified Town" programs of other states. The training is designed to meet three objectives: to foster greater understanding of why a public/private partnership organization is vital to the economic health of the local community; to outline how to go about forming such an organization; and to improve the professional capabilities of the group by working through a series of tasks once the group has been formed. The initial training course (for approximately 8-10 communities) is anticipated in May or June of 1983.

Build Montana Recommendation: The state should fund a substantial program to provide financial assistance to community-based economic development corporations. The state grants would require local matching funds from private or public sources. The state funds would be used to start development corporations in communities where they do not currently exist and to strengthen those now operating. Principal goals would include the development of broadly based boards of directors, development of professional staff and establishment of realistic economic development goals and programs. Broad community support and participation is vital for successful community-based economic development. Approximately a half million dollars would be available for grants to local development corporations. These grants would be utilized for both basic support services and specific projects.

In addition to grant programs the Build Montana program will include additional funds for training staff and board members of local development organizations. The training will be part of certified community programs. The certification will indicate that communities have developed a coherent and broadly based economic development organization. Building strong development organizations at the local level can best be done through group training with community follow-up on task performance. This is the most effective way to foster a public/private partnership at the local level and thereby strengthen the local climate for existing and new economic activity.

BUSINESS LICENSING ASSISTANCE

Economic Development Issue: Application for governmental licenses is a time consuming, complex and often irritating experience for both the businessman and government employee because of the multitude of licenses that are required. The 1981 Legislature created the Business Licensing Center to distribute information concerning state licensing requirements for starting and operating a business and to provide assistance to the businessman applying for a license, but no centralized licensing process was authorized.

Current Policy and Programs: The Business Licensing Center was required by the 1981 Legislature to examine methods to simplify the existing licensing process. A study has been conducted which identifies that most licensing is related to just 12 different retail licenses that are currently administered by several difference agencies.

Build Montana Recommendation: The Build Montana program continues the existing program of the Business Licensing Center, but it does not include any specific proposal for increased funding or staff for the center. The existing program should be continued with its emphasis on coordination until such time as the legislature has authorized the consolidation of licensing permits. If the Legislature should adopt legislation to permit consolidation of the most common licensing permits, it will need to fund the necessary computer programs and authorize mechanism for coordination of inspections.

The proposal for consolidation of licenses, which is not part of the Build Montana Program, would be administered by the Department of Commerce and would gradually convert each business to one anniversary date for all licenses, as was done for automobiles. The Department of Revenue would handle the accounting for license fees and credit the proper agencies for fees received. Streamlining licensing in the above fashion will help cut costs and red tape for both the local business person and for state administration. The small business will only have one time of the year at which licenses are due to be renewed and can renew all of them at one time. Hopefully, the state would no longer have major variations in the volume of licensing activity as it does now (most licenses have due dates of January or July 1). This would allow a constant number of employees to process renewals rather than hiring and training employees for renewal periods as is currently done.

The centralization of the record keeping on computer would allow the center to track and act as an ombudsman for individual businesses in cases where problems in processing arise.

MONTANA PRODUCT PROMOTION

Economic Development Issue: Identification and promotion of Montana made or grown products enhances the market strengths of Montana businesses and raises public awareness and pride in Montana's economy. Marketing assistance helps ensure the health and profitability of Montana businesses and stimulates expansion and development of new businesses and products.

Many Montana manufacturers are purchasing services and materials from out-of-state suppliers in the production of their products. In many cases capacity exists to join Montana manufacturers together so that materials and services that are currently being purchased out-of-state can be purchased from in-state suppliers.

Recent changes in Federal government purchasing regulations have made it easier for small manufacturers to gain access to government contracts. Currently there is no clearinghouse for Montana manufacturers to provide information on what contracts are available.

Current Policy and Programs: The Department of Agriculture operates a successful program for promoting the sale of Montana agricultural products. The Department of Commerce has plans to reprint the Montana Manufacturers Directory.

Build Montana Recommendation: Three new programs should be developed to increase the sale of Montana made or grown products.

A "Buy Montana" promotional program should be established that would identify Montana made or grown products, label those products at the consumer level and promote the purchase of those products through an in-state multi-media promotional campaign. This program will focus on agricultural, art and manufactured products.

The Department of Commerce should establish a clearinghouse for Montana manufacturers whereby they can be made aware of, and put in direct contact with, other Montana manufacturers who are potential and plausible raw-material or value-added suppliers.

The Department of Commerce should establish an aggressive program to pursue Federal government supply contractors for Montana businesses. The Department of Commerce would establish a system to track pending Federal government supply contracts and would make Montana manufacturers aware of these opportunities on an ongoing basis.

INTERNATIONAL EXPORT ASSISTANCE

Economic Development Issue: International markets, especially Canadian and Asian markets, represent an important opportunity for Montana businesses, but the technicalities of international trade often discourage Montana businessmen from attempting to enter the market.

Current Policy and Programs: International trade functions are handled in a somewhat fragmented fashion. Export of agriculture products is promoted by the State Department of Agriculture or Wheat Research and Marketing Unit in Great Falls. A part-time position in the Department of Commerce handles all other international trade matters including clarification of immigration laws, foreign investments, technical assistance in the mechanics of exporting and answering foreign trade inquiries. The level of staffing is significantly below that of neighboring states. In spite of the limited staffing the Department has begun to develop an international trade program.

The Western Governor's Conference has recommended the establishment of an International Trade Office (officer) within each member state to direct and guide development of increased international business. In November 1982, international trade officers from seven western states, including Montana, participated in a Trade Development Conference with officials from the Alberta Ministry of Economic Development, Directors of the Edmonton and Calgary Chambers of Commerce, and industrial executives. This effort established the groundwork for a future Montana trade mission primarily comprised of Montana manufacturers interested in exporting their products to western Canada.

Build Montana Recommendation: An adequately staffed and funded program of international export assistance should be established. A two-member professional staff should be authorized with sufficient funds to provide a broad program of technical assistance including marketing, catalogues, directories, export guides, market research, foreign language interpreting services, legal assistance, trade shows and displays. The Department would also apply for the loan of a "Pearson" foreign service officer from the State Department to help establish the international export assistance program. The officer is available for a year's tour of duty to help establish such programs.

Economic stagnation in Montana is due partly to a saturation of the domestic market. International trade is growing considerably faster than domestic trade. Exporting increases production and employment. Exporting provides a broader marketing base that cushions domestic recession and inflation trends. Exporting expands the state's tax base. A progressive, results-oriented, export and international trade/investment program requires a solid commitment of experienced manpower and adequate fiscal resources. A significant number of Montana firms would like to export their products but lack the know-how and revenue to contract with expensive export management/marketing companies. It is an appropriate role for the Department of Commerce to assist Montana businesses in identifying and developing international trade leads, educating owners and managers on how to successfully complete an export transaction, and sponsoring trade shows and missions which have become a significant tool toward developing long-term trade relationships. Additionally, the Department of Commerce

is an appropriate agency to facilitate foreign investment in state business ventures, provide technical assistance to support the creation of foreign trade zones, analyze the feasibility of recently authorized export trading companies and facilitate formal agreements with major foreign trading companies.

The department is also providing Helena office space and secretarial assistance to staff of the newly established 49th Parallel Institute. The Institute on Canadian/American relations established by the Montana State University, Department of Political Science, will assist in the development of business contracts with Canadian Provinces and the identification of barriers to trade with Canada.

BUSINESS AND COMMUNITY
STATISTICAL SERVICES

Economic Development Issue: The availability of accurate statistical information from census data, demographic trends, economic indicators and business production measures is crucial to both business expansion and local government management. In the business area rapid access to such information can often make the difference on whether or not to expand in a particular community. For local governments, rapid access to such information can make the difference in qualifying and competing for federal programs, as well as provide a base for local officials and community leaders to use in anticipating their community's development.

Current Policy and Programs: There is currently one economic research position in the Department of Commerce and a three-person demographic research unit in the Department of Administration as well as miscellaneous economists in other departments. There are informal attempts to coordinate research between departments, but no formal system. The Department of Administration program provides census data as requested by local governments and business. This requires analysis of census data obtained from the Federal Census and Economic Information Center and manipulation of data or computer tape files to provide the data to the user as requested. The research portion of the Department of Commerce responds to requests from business by providing analysis of both economic and demographic data.

Build Montana Recommendation: The economic and demographic analysis function in the Department of Administration should be transferred to the Department of Commerce and combined with the existing business statistical service at Commerce. One of the positions should be designated "State Economist" and given the responsibility to coordinate the economic research activities of economists in our state departments and the responsibility of coordinating liaison with the University system. Special efforts will be made to coordinate with the state and federal agencies that already develop agricultural and business statistics.

The new unit at the Department of Commerce (in cooperation with the university system Economic Reporting and Forecasting System) would provide basic economic data for departments and state employees, the Governor's Council on the Economy and the business community.

MONTANA ECONOMIC REPORTING AND FORECASTING SYSTEM

Economic Development Issue: Timely, consistent and comprehensive information on Montana's economy is necessary for the public and private sectors. Timely and adequate data and forecasts will help both private and public officials who need continuous assessments of the economy's performance and outlook. In addition, closer cooperation between the University system and state government employees could help raise the level of economic analysis in the state.

Current Policy and Programs: Although the Bureau of Business and Economic Research, (BBER) the school of business, and the economic departments of the university system as well as state agencies all develop meaningful economic statistics, analyze this data and provide periodic public reports, there is no systematic effort to coordinate these activities. No broad-based or professional economic analysis is now provided to state decision-makers on a regular, formalized basis. Very little current state and regional economic data, and no short-term projections of economic activity are available on a regular basis.

Build Montana Recommendation: There are three recommendations for improving economic reporting and analysis.

1. A committee of university and state economists should be created to coordinate state economic research and analysis.
2. The committee would supervise the development of a Montana Economic Forecasting and Reporting System to better coordinate the dissemination of information to the business and government sector.
3. The committee would provide quarterly briefings to the cabinet and legislative leaders on economic conditions and forecasts.

These programs complement the activities of the proposed State Business and Community Statistical Service and the current work of the Bureau of Business and Economic Analysis. The Committee would include economists specializing in over-all analysis of the Montana economy plus economists engaged in agricultural, forest industries, and mineral economics research.

The Bureau of Business and Economic Research would take the lead in preparing economic forecasts and analyses, and in arranging economic briefings. Because it is an organized research unit with full-time researchers, Bureau personnel could provide continuity for long-term projects and, usually, quicker response to other requests than can teaching faculty. No extra compensation except travel would be paid to any University System or state economist for his or her services on the Economic Advisory Committee or in the development of the data system. The System would be designed in the BBER, University of Montana, in consultation with the Economic Advisory Committee and other University System economists. It would provide current state and local data and future projections useful to state and local governments and the private sector. For state government, the system would provide timely and useful information for decision-makers monitoring the state of the economy; agencies and groups concerned with economic development; legislators and legislative committees; individuals engaged in revenue projections; and agencies providing social services. The county data would be useful for local governments. In addition, the system would provide a valuable framework for planning and development in the private sector.

Using a standard national forecast (which is currently purchased from a national firm) as the framework, and working with the appropriate state agencies, quarterly forecasts of personal income, employment, and unemployment in Montana for a three-year period would be prepared. The forecasts would be comparable to the historic data now available. They would include the major components of personal income by source (i.e. wages and salaries, property income and transfer payments), employment by major industry groups, and unemployment.

The Bureau of Business and Economic Research currently has an established and reputable survey research program. By expanding these activities, it could significantly increase the amount of current and up-to-date information available about Montana's population; examples include household size, household characteristics, household income distribution, age distribution, and length of residence. Currently, much of this information is available only every ten years from the Decennial Censuses.

In addition to current estimates, forecasts of household income distribution would be prepared. These forecasts (i.e., the number of households in various income size groups) would make possible estimates such as the number of households below national poverty levels, as well as other data useful as indicators of demand for social welfare programs.

Forecasts by quarter would be prepared for a three-year projection period. This means that forecasts released in the spring preceding a legislative session would extend through the next biennium. Revisions would be made semi-annually as new information becomes available.

During the first two years, only statewide forecasts would be available. The goal would be to eventually develop local area (county and/or regional) forecasting procedures. In the meantime, the proposed system would provide more current local data than has ever been available before. For example, regional household income distribution estimates would be available on a current basis, in conjunction with the state estimates, from Bureau survey activities. Quarterly estimates of total and per capita personal income and population could be prepared with approximately an eight-month time lag rather than the two-year delay which occurs with U.S. Department of Commerce estimates.

BUSINESS LOCATION PROMOTION

Economic Development Issue: There are two ways the State of Montana can increase its primary production and employment levels: (1) through expansion and creation of Montana businesses from the entrepreneurial, financial and resource base which currently exists in Montana and; (2) by attracting new or expanding businesses from outside of Montana to locate within the state. Opportunities exist to increase both development from within and outside of Montana. The state can undertake positive public relations steps to accomplish a positive climate perception with business leaders outside of Montana.

Few new or expanding firms consider Montana as a potential location. This is not necessarily because Montana has a negative image as a potential location or is ill suited; rather, it is because Montana has no image... it is simply not part of the decision-making array of location options. A majority of other states aggressively pursue new businesses by marketing themselves as a likely location and trumpeting their individual strengths. The State of Montana has never pursued a pro-active business location program. Past activities has been limited to responding to businesses that have initiated contact on their own volition.

Current Policy and Programs: Montana recruits on a limited basis through personalized follow-up to businesses that have inquired about potential locations in the state. The state responds to all requests for economic data, labor statistics, financial, tax and transportation information. Site location services are provided as are limited technical assistance programs. Current technical assistance program funding is federal and will end this current fiscal year.

The state publishes a comprehensive Business and Industrial Location Guide which is distributed free of charge to interested businesses. As needed, the Governor and Director of the Department of Commerce travel to recruit strong prospects.

Currently, a slide presentation and video program is being developed for use outside of Montana in personalized recruitment.

Build Montana Recommendation: There will be three parts to our business location strategy: (1) A modest well-targeted business advertising program and publication of the location brochures; (2) A capacity to respond professionally to inquiries; (3) The privately-financed Montana Ambassadors program. Montana would initiate a modest, well-targeted business location advertising, publicity and exhibiting campaign. The campaign would be targeted to advertise Montana's strengths, (i.e. relatively low energy costs; low income rates, life styles, etc.).

Specifically, advertisements would be placed in business, industrial development and trade magazines together with business newspapers. Free publicity in the form of feature articles would be aggressively pursued in business publications and newspapers. The state would exhibit at three (3) national industrial exhibits.

When business location inquiries are received, we would be prepared to provide information on the specific business assistance programs being developed under other portions of the Build Montana program, such as the development finance programs, labor training funds, management assistance programs, etc.

The state Business Location Program would be complemented and strengthened by a privately financed "Montana Ambassador" group to sponsor out-of-state recruitment trips and in-state tours for prospects. The Ambassador group would consist of business, labor and university representatives and would provide a perspective that public officials cannot provide. Statistically, very few businesses actually relocate or expand in geographic areas distant from their existing locations. Nevertheless, a modest program of recruitment is an essential part of a well-rounded business development program.

Knowledge on the part of business location decision-makers of the real and tangible benefits of a Montana business location is one way to create new jobs in the state. If Montana expects to compete for new businesses, it must have both a presence in the marketplace and a professional research unit to back it up. Furthermore, to the degree that there is a perception both in and out-of-state that Montana has a poor business climate, a creative positive marketing program combined with an in-state publicity program would do much to dispel this perception.

Only about seven percent of all national manufacturing plants had tentative plans to expand or relocate last year and less than 15% of these plans materialized. Last year - nationwide - only about 2000 firms built new plants. Competition among the states for a "piece of the action" is fierce. One business writer calls this struggle the new "War Between the States." Montana is competing, but on a smaller, more reasonable scale. Many states are spending millions of dollars each year in expensive, Madison Avenue-type advertising and promotion. North Carolina bought its third jet helicopter for \$1.4 million to ferry business prospects around the state. We would never be able to compete in these high-expenditure battles-nor should we. The payoff is just not there. Our approach should be reasonable, cost efficient and personalized, but even a modest effort costs money.

TOURISM PROMOTION

Economic Development Issues: Travel and tourism expenditures in Montana are estimated to have topped \$1 billion in 1980. Employment attributed to these expenditures was 20,000 FTE's. Over the past decade tourism has grown in Montana despite transportation cost increases, inflation and, of late, a recessed economy.

Positive market research reveals that Montana can clearly attract more visitors both summer and winter, and that growth potential can be stimulated by proper promotion of the state. Increased visitation and resultant expenditures helps insure the maintenance and enhancement of employment levels in the travel industry and stimulates demand for capital investments.

Tourism plays an integral part in maintaining airline, train and bus transportation service in Montana. Alone it could not support current service levels; however, together with business travel and personal travel by Montanans it provides the margin of passengers which makes these transportation services profitable.

Montana currently ranks 46th in the nation in its dollar commitment to tourism promotion and spends only half as much as South Dakota, Wyoming or Alberta. The travel industry is largely owned and operated by Montanans and provides important diversity for the Montana economy.

Tourism is a clean and renewable industry with excellent long range growth potential.

Current Policy and Programs: The state currently spends about \$700,000 annually on tourism promotion, an amount unchanged since 1975. The private sector contributes over \$100,000 in joint promotional campaigns. Promotion is limited to regional media. Tourism promotion publications are mailed to inquiries resulting from advertising. New cooperative programs have been developed with the travel industry in summer markets, group travel markets, snowmobiling and nordic and alpine skiing.

The state tourism promotion effort is managed under the guidance of a five-year marketing plan and advice of the Tourism Advisory Council.

Significant opportunities exist for future increased visitation e.g., the upcoming centennial celebrations of several western states.

Build Montana Recommendation: State support for tourism promotion should be substantially increased. The program would include overall expansion and upgrading of both summer and winter travel promotion campaigns. Cooperative programs with the private sector, including advertising, exhibiting, publishing and publicity, would be increased to a level of \$700,000 in private contributions for the biennium.

Specifically, the amount of paid advertising would be quadrupled. Target markets would be expanded into the southwest and mid-American regions. The size and frequency of magazine advertising during the spring would be significantly increased. In prime markets, particularly in Canada, television advertising would be implemented together with outdoor and radio advertising to raise awareness of Montana as a vacation destination and to give details on how and where to vacation in Montana.

Winter vacation advertising would be doubled in cooperation with ski areas, snow-mobilers and airlines. Specifically, magazine advertising would be increased, T.V. advertising would be initiated in target markets and newspaper specials would be advertised (e.g. low rates to Montana on x airline for skiing).

Publications which are promotional in nature but currently printed on newsprint in one color would be upgraded to full color and paper stock would be upgraded. Quantities of publications would be increased to meet anticipated demand from expanded advertising efforts.

Consumer travel exhibiting would be expanded and coordinated with both summer and winter advertising campaigns. All exhibiting would be done cooperatively with the private sector. There would be an additional nine travel exhibits attended.

Efforts to get "free" publicity through magazine and newspaper feature articles would be greatly expanded and travel publicity on network and cable television would be aggressively pursued.

Advertising for group travel (bus tours) would be increased and a package tour guide would be published. The current group-travel direct-marketing program would be expanded to 100 brokers from the current 50 brokers.

Advertising for motion picture and T.V. commercial locations would double and video filming and playback equipment would be purchased for use throughout Travel, Business, Motion Picture and T.V. commercial promotional campaigns.

COMMUNITY DEVELOPMENT TECHNICAL ASSISTANCE
AND INFRASTRUCTURE STUDY

Economic Development Issue: Montana communities are growing old. Local governments all across the state are suffering from a lack of ongoing investment in public facilities. As a result, the state's stock of local roads, water/sewer systems, public buildings, airports, firehalls, referred to as "infrastructure" have fallen into a state of disrepair and/or are simply no longer sufficient to meet current demands. Today, local governments are having to cut back to meet their operating budgets, let alone investing in capital expenditures. Yet, these services are basic to a community's ability to support its local business sector and be attractive for expansion and growth. At the same time these needs are emerging and demanding attention, local governments are suffering cutbacks in federal funds and loss of taxable valuation. Strategic fiscal planning and capital improvement budgeting will be crucial to the ability of communities to meet this challenge. There is currently inadequate information on the infrastructure needs of local governments.

Current Policy and Programs: There are currently four programs that are beginning to identify and/or finance the infrastructure needs of local governments.

1. The Department of Commerce has taken over administration of the federal "Small Cities" Community Development Block Grant Program (CDBG). Under the state's guidelines, local governments compete for up to \$400,000/year to undertake projects in three areas: public works, housing and economic development. Total funding for the program each year is \$6.1 million. The first cycle of awards have been made to 13 communities. Another 35 local governments applied. The application process has identified that there is a great and growing problem of financing local infrastructure.
2. The Montana Department of Natural Resources and Conservation has two water infrastructure funding programs:
 - 1) Water Development Loan and Grant Program, has \$1.6 million available to public and/or private applicants for loans or grants; and
 - 2) Renewable Resources Development Program, has \$640,000 available for public applicants only, for loans or grants.

Both programs use coal severance tax revenues to finance improvements and all applications are subject to legislative approval.

The 1983 Legislature will review a total of 80 applications totalling \$27 million. Out of these, approximately 30 were municipal applicants requesting \$6.9 million for water or sewer projects. There were also 10 rural water system requests totalling \$4.7 million. The application process has begun to identify the water and sewer infrastructure needs of local governments.

3. The Department of Commerce has just begun to participate in a study of infrastructure needs in cooperation with the University of Colorado's Graduate School of Public Affairs. The Montana study is part of a national effort including university case studies by Indiana University, the University of

Texas, Rutgers of New Jersey and the University of Colorado. Support for this effort comes from the Joint Economic Committee of the Congress, the Ford, Piton and Gate Foundations. The study will project basic state and local infrastructure needs through the year 2000 and funding constraints related to these needs. This survey will help begin a systematic study of local infrastructure needs.

4. The Department of Commerce currently has a staff of two available to provide technical assistance to communities. Special attention has been focused on the energy impact areas of Eastern Montana as these communities are most immediately facing rapid growth and therefore rapid expansion of demand for local government services. The staff is working with other state and federal agencies involved in water and sewer project financing to sponsor several workshops and coordination of state assistance in these key areas. Other infrastructure needs at the local level are not well-known. There is a limit to what two persons can accomplish with both the geographic area and subject matter they can effectively cover.
5. The Department of Health and Environmental Sciences administers the Waste Water Construction Grant Program, an EPA pass-through program, which may be used to finance community sewage systems. The program includes an allocation to the state to provide 75-85% grants for the planning, design, and construction phases of local sewage programs. In fiscal year 1982, Health was able to fund 3 out of 121 proposed community projects. For fiscal year 1983, Health may fund 11-15 out of 83 proposed community projects. The tentative federal allocations for the next four years will be about \$11.8 million for each year. The state received \$11.8 million for fiscal 1982 and 11.9 million for fiscal 1983. Requirements for local participation will be increasing incrementally from 25% local, now, to 45% local, during the next four years. For '82 and '83 the program will retain the 75% match. The application process has identified and ranked the severity of need for new or expanded local waste-water projects.
6. The Montana Coal Board administers the Local Impact Assistance Program which provides grants for local government services that must be expanded as a direct result of coal development. Funds for this program originate from 8.75% of the coal severance tax. Local Impact Grants can be used only by coal impact communities or potential impact communities to finance most types of infrastructure expansion or new construction (sewer and water systems, public buildings, etc.) necessitated by coal development.

The Coal Board provides funds for capital equipment, water and sewer systems, law enforcement and other community facilities. Total program funding for fiscal year 1983 is projected to be \$7.5 million. This program was appropriated \$6 million in 1981 and \$9 million in 1980. The application process identifies immediate impact-related needs and attempts to project future needs for infrastructure improvements.

Build Montana Recommendations: A comprehensive study of the infrastructure needs of Montana municipalities, counties and school districts should be authorized along with two professional staff to conduct the study and provide technical assistance to local governments regarding alternatives for financing infrastructure improvements. The study would catalogue the short and long term need for water/

sewer improvements, public buildings, roads and other public facilities. The study and technical assistance should emphasize the relationship between economic growth and economic development. Computer programs should be developed by the department to assist communities with fiscal projections for capital budgets. The project would assist local governments assess and meet their own infrastructure needs and at the same time develop a statewide inventory so that the 1985 Legislature could review the magnitude of the infrastructure problems of local governments. Capital improvement budgeting has traditionally been a problem area for local officials. Targeting state assistance now to help with this aspect of local government services would help ensure that Montana taxpayers get the best, lowest cost facilities and that adequate information would be available for state and local officials.

ECONOMIC AND COMMUNITY DEVELOPMENT DIVISION SUPPORT

Economic Development Issue: Effective coordination of the state's efforts in economic development is crucial to maximizing the benefits to the state of this comprehensive array of programs. Similarly, being able to provide support service to the Division in an effective manner is necessary to program effectiveness. Leadership and administrative support must be a central ingredient to the Department's overall economic development approach.

Current Policy and Program: Currently, the Division of Community and Economic Development encompasses all of the programs in travel promotion, business location promotion, Montana product promotion, small business assistance, licensing center, local development corporation support, low income housing support, Coal Board, Hard Rock Board, Community Development Assistance and the "Small Cities" federal block grant program. Effective coordination of all these programs is done in part by the Bureau Chiefs, but more importantly at the level of the Division Administrator. In addition, secretarial support services for all these programs is handled centrally to provide for the most efficient use of resources. Current staff to accomplish these tasks include the Division Administrator, policy development and coordinator position, and administrative secretary. The Division Administrator's office also coordinates division programs with other appropriate state agencies; creates an awareness and understanding of economic development programs throughout the state and provide policy coordination with federal and local government agencies and business trade associations.

Build Montana Recommendation: The Division Administrator's office would be responsible for implementing most of the programs proposed in the "Build Montana" program. The Administrator's office needs adequate funding and staff to supervise the broad range of services that would be provided by the division. One additional secretary position would be requested.

STATE FUNDED LABOR TRAINING PROGRAM

Economic Development Issues: A trained labor force is a vital element in the Build Montana economic development package. Private employers consider the availability of skilled workers to be a primary factor in deciding to open a new business, expand an existing one, or to relocate in a new area. The diversification of Montana's economy requires a shift in the skills and abilities needed by the labor force. A lack of state resources for job training has limited Montana's flexibility to meet employer needs and to serve trainees who do not meet federally-mandated eligibility requirements.

Montana is one of 16 states without a state-funded job training program. All job training programs operated by the Department of Labor and the Private Industry Council are Federally funded and must comply with restrictive guidelines, criteria, and procedures required by the Federal government. It is difficult to use these funds to train workers for new or expanding businesses. The university system, community colleges and vocational/technical centers do not have a coordinated approach to providing job training for Montana businesses.

A state-funded approach to job training is required if employers are going to receive the prompt and specific training assistance they need. State training funds will be used for short-term employer-directed curriculum training programs which end in jobs for the unemployed.

Montana is suffering from the highest unemployment rate in 40 years, due to the continuing economic recession. There were 35,600 "officially" unemployed persons in November of 1982, representing a 9.2 percent unemployment rate. This compares to unemployment rates of 5.7 percent and 5.2 percent in the months of October in 1981 and 1980. Rates of unemployed workers do not include those workers who have become discouraged and are no longer seeking work. The severity of unemployment rates indicate a continuing worsening of the employment picture in Montana. Eleven hardest-hit counties in the state are experiencing unemployment rates in excess of 10 percent. Contributing to the severe labor market are the loss of jobs in the higher-paying industries in Montana. Jobs lost in the last 12 months were as follows: 2400 in mining, 2300 in manufacturing, 1500 in construction, and 4000 in government.

Many of these workers lost their jobs due to closures of the businesses and plants where they had worked. Plant closures produce a different stratum of the unemployed population. Often, displaced workers are older (average age of 40-44 of ARCO workers who lost their jobs in 1930 in Anaconda, Butte, and Great Falls), have had continuous work history of 15 or more years, and are accustomed to earning high wages. The average wage of 800 of the 1400 workers displaced by the smelter closures was \$20,753. Retraining issues center on finding new and appropriate occupational training choices for such a population.

Current Policy and Programs: Employer-specific training has been successfully provided in past years through one-time-only monies from the federal government. Private employers were integrally involved in these programs and the high rates of employment of program graduates demonstrated that both trainees and employers were extremely satisfied with the results. Program examples include the Pre-employment model and the Skill Training Improvement Program (STIP) model. An 85% job placement rate

was achieved through the STIP model and job placement rates of up to 100% were achieved through the Pre-employment model. Both programs credited employer selection of trainees and training curricula as the most important factors leading to success. Currently, federal funding and eligibility restrictions do not allow the employer-directed approaches to be included in the job training components now offered by the Department of Labor and Industry.

The Montana Department of Labor and Industry has funded a statewide CETA program for displaced workers, primarily in Western Montana, who have lost employment due to cyclical factors in the economy. The purpose of this program has been to guide unemployed workers away from industries which offer little job security or advancement and toward jobs offering growth potential and career security. Coordinators in Libby, Missoula, Butte and Great Falls provide skill assessment, counseling, labor market information, interviewing techniques, resume development, job placement, on-the-job training, and relocation assistance to workers displaced by plant closures and massive layoffs. Approximately 70% of those workers served have obtained employment. Wages earned by those workers in new jobs average approximately \$6.25 per hour.

Build Montana Recommendation: A state-funded labor training program should be established in the Department of Labor. The state job training assistance for Montana businesses would be administered by existing staff of the Department and one additional position that will be created to administer the program. Training would be divided among the programs to serve new and expanding businesses as well as those facing economic decline. These state funds would be multiplied by the supplementation of federal Job Training Partnership Act funds. Employers need the flexibility of state training funds to meet their requirements for skilled workers. Two approaches to assisting employers would be added through this state-funded program to the mix of training components currently funded by the federal Department of Labor.

Employers planning to expand or relocate in Montana would receive assistance through employer-directed training programs. Existing training programs prepare graduates for a range of jobs and often are insufficient in meeting the specific skill demands of individual employers. Montana is one of a minority of states that has chosen to rely solely on federal funds for employment and training programs. This dependence on federal funds has severely limited Montana's flexibility to serve employers. The commitment of state funds for employment and training programs would add an important component to the current training available. Employer satisfaction would be the bottom line for this program.

Businesses facing an economic decline often lack the resources needed to assist their long-term workers who suddenly face a major job change and who require re-training for new occupations. A new change in federal legislation requires state or private funds to be used as a 50:50 match for certain job training funds. State funds to assist, retrain, and relocate workers unemployed through layoffs and business closures would be doubled by federal Job Training Partnership Act funds. A state-employer approach to easing this painful transition for workers would be provided by this program.

Assistance to employers in new and expanding businesses would be provided through a contract process to train workers for jobs with specific employers. The availability of this training would be used as an inducement to encourage business expansion and in-migration to Montana. Existing training institutions, school districts, organized labor, and employers would be considered for training contracts under this program. Occupational training would be focused on those jobs which provide growth

potential and security. Wages for trained occupations would average at least \$5.50 per hour. State funds would be multiplied by the supplementation of federal Job Training Partnership Act funding of trainees who meet federal eligibility requirements. State funding would increase employer flexibility in trainee selection by eliminating the need for all trainees to meet federal restrictions.

Oversight committees of representatives from employers, workers, and Job Service would be established to select and review each training curriculum to ensure that trainees would gain the needed skills to perform the jobs needed by the employers. Employer contributions to training programs established by state funding would include: selection of trainees; development of training curricula; assistance in the obtaining of instructors, equipment and plant sites where training can be conducted; participation in job development; unsubsidized employment for program graduates; and encouragement to provide additional monies from the private sector to supplement state funding. On-the-job training positions funded by the federal Job Training Partnership Act would be used when appropriate to assist employers in the hiring of program graduates.

Employers facing economic decline as well as their workers would receive assistance through state funds matched with federal Job Training Partnership Act funds. A 50:50 match of state or private funds is now required to obtain federal funds to assist dislocated workers. This new program would include a team of state agency representatives to respond to major employee layoffs and business closures. This team would be ready to coordinate all efforts by state agencies to assist employers, workers, and communities when a closure or major layoff is announced. The team would be assigned staff assistance from the Department of Labor and Industry. Re-training assistance would be offered to workers and would be focused upon those persons who are older and face the greatest barriers in transferring to other occupations. Both on-the-job and classroom training programs would be provided with an emphasis in new and expanding occupations. Assistance would be provided to those workers unable to remain in their communities and willing to relocate for employment.

BUILD MONTANA BUDGET SUMMARY
ECONOMIC DEVELOPMENT PROGRAMS

[illegible]

a. Includes \$450,000 for contracts with University System.

b. Includes \$594,715 for mini-grants to small businesses

c. Includes \$461,818 for grants to local development corporations

c. Includes \$461,818 for grants to local development corporations.
d. Spending authority for an additional \$700,000 for private sector contributions will be requested.

ADVISORY TASK FORCES

The Administration has made a serious commitment to consulting with the private sector in developing the recommendations for the "Economic Development" programs contained in this report.

The committee members devoted hundreds of voluntary hours to committee work. The committee thoughtfully examined the economic development problems and opportunities confronting Montanans and offered many useful suggestions.

We also worked closely with the Legislative Joint Subcommittee on Business and reviewed their recommendations.

Every recommendation in this report originated with, and was reviewed and recommended by, a citizen task force.

Not all suggestions were made by the task force have been included in the report, but all were seriously considered by the Administration in selecting recommendations for the Build Montana program.

The Administration extends its sincerest thanks to each citizen who took time from their personal and business lives to contribute to "Building Montana" by serving on the following Advisory Task Forces:

- Montana Economic Development Project Steering Committee
- University Committees on Economic Development
- Temporary Committee on Development Finance
- Montana Small Business Council
- Montana Tourism Advisory Council
- Committee on Business Management Assistance and Training
- Temporary Committee to Sponsor Creation of a Committee on Science and Technology

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